

# RETIREMENT TODAY

ND TEACHERS' FUND FOR RETIREMENT

JANUARY 2009

## TFFR Benefits Safe Despite Volatile Markets

Over the past few months, the financial markets have shown dramatic volatility, leading to increased concerns over the U.S. economy in general, and the impact on the ND Teachers' Fund for Retirement (TFFR).

Like all investors and public pension programs, TFFR has been negatively affected by the significant downturn in the markets. Although the Fund is down nearly 25% since July 1, 2008, TFFR investments are well-diversified in a strategic asset allocation mix that includes U.S. and international stocks, bonds, private equity, and real estate. This mix helps to moderate the effects that one particular investment or one particular company may have on investment performance.

A very natural reaction to what is currently happening in the financial markets is to be concerned about the security of your TFFR retirement benefits. It is in recognition of times like these that defined benefit plans like TFFR were originally designed. Due to their ability to spread risk across a large population of participants and average out investment returns over multi-year time periods, defined benefit pension plans are able to sustain themselves through times of market volatility. Your TFFR plan is a long-term investor, and is supported by a professionally managed, well-diversified portfolio. Your TFFR benefits are safe, guaranteed, and not tied to an individual account balance that may go up or down.

Funds used to pay retiree pension benefits come into the TFFR system through member and employer contributions, and from investment earnings. While the market value of the TFFR fund may fluctuate, as do the markets in general, TFFR can continue paying benefits to meet our current pension obligations.

The State Investment Board (SIB), TFFR Board, and RIO staff are monitoring the markets closely and doing everything possible to protect the retirement security of current and future TFFR members. We will remain vigilant in the uncertain times ahead.

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## **TFFR Board**

The TFFR Board is dedicated to ensuring a financially secure pension fund for the benefit of North Dakota's active and retired public school teachers.



*Front row, from left: Clarence Corneil, Mike Gessner, Lowell Latimer. Back row: State Treasurer Kelly Schmidt, Bob Toso, State Superintendent Wayne Sanstead, Kim Franz.*

## Memo to Members

### Yo-Yo Markets: What's a pension plan to do?

Like a child's toy yo-yo, the stock market is up...and then it's down. And then it's up a little bit, and then it's down some more.

Without a doubt, the market's tumult has taken its toll on pension portfolios and, in remarkably short order, managed to undo what had been a diligent, steady progress toward restoring the funding health of many retirement programs, like TFFR. You can see from the chart on page 3 that TFFR's funding level was on a path of improvement during the 1980's and 90's. The dot.com crash during



Fay Kopp,  
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ND Teachers' Fund for Retirement

2001-03 set the funding plan back, and just when TFFR was beginning to get back on track due to strong investment gains in 2004-07, along comes another financial breakdown. This one much bigger, and expected to be much longer, than any since the Great Depression.

So how does a pension plan like TFFR survive these yo-yo markets?

The article, "TFFR Benefits are Safe," on page 1 describes what TFFR does to withstand such volatile markets. Also, an interview with Steve Cochrane, Chief Investment Officer, on page 4 provides answers to some common questions about the state's investment program.

With all that said, no pension plan is immune from the current financial crisis facing investors. Investment losses are mounting (-25% fiscal year to date estimate) and actuarial projections indicate TFFR's funding level will drop dramatically in the years ahead. To offset investment losses, it is likely that contributions may need to be increased in the future. Predicting the magnitude of increased costs is difficult and will depend on factors unique to the TFFR plan, as well as performance of investment markets over subsequent years.

The TFFR Board plans to continue studying this issue in the next year, and will develop a long term comprehensive funding improvement plan to submit to the Legislature in the future.

## Actuary Delivers 2008 Valuation Report

The primary purpose of the annual valuation is to determine if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time and warns of possible future problems and issues.

According to the Fund's actuarial consultant, TFFR's 2008 funding level improved over the past year. This, however, is unlikely to last, and future funding declines are expected due to significant investment

losses being experienced and the uncertain state of the economy. The July 1, 2008 report provides the following information:

### Membership

The TFFR plan represented 17,566 active, inactive, and retired members. There were 9,561 active members, a decrease of 38 from last year. The average age of the active members was 44.6 years; average service was 14.4 years; and average annual salary was \$43,684. There were 6,317 retirees and beneficiaries, an increase of 240 retirees over last

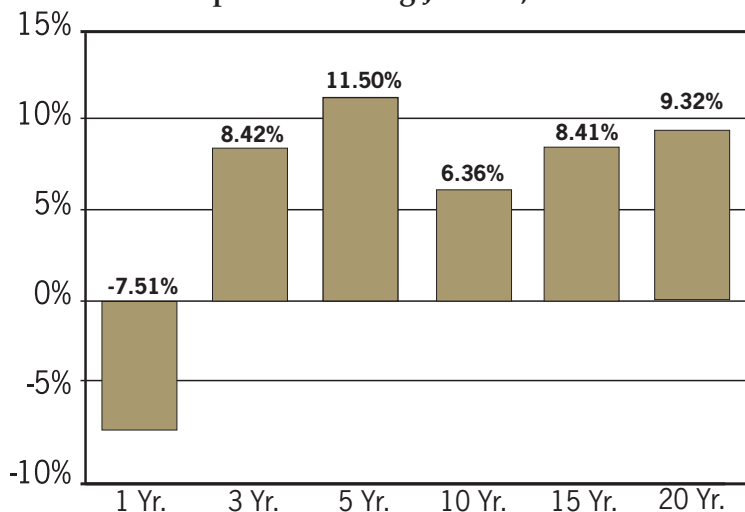
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# 2008 Annual Report Summary

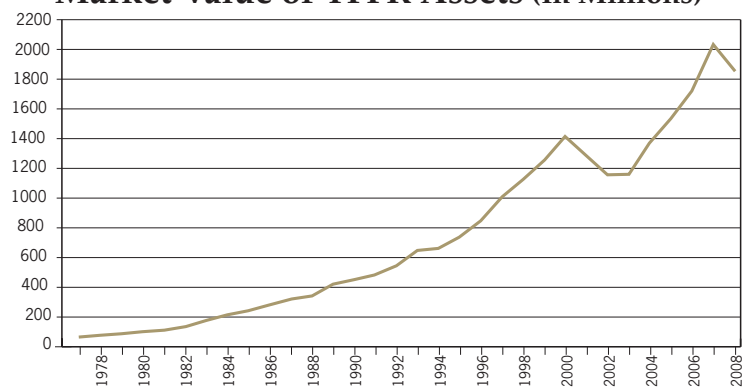
NDRIO's annual Comprehensive Annual Financial Report (CAFR) for 2008 has been published and provides a detailed look at investment, financial, actuarial, and statistical information. The report continues to receive the Certificate of Achievement for Excellence in Financial Reporting. The complete report is posted on the NDRIO website at [www.nd.gov/rio](http://www.nd.gov/rio), or copies of the report may be requested by calling at 1-800-952-2970.



## TFFR Investment Performance for periods ending June 30, 2008



## Market Value of TFFR Assets (In Millions)



## TFFR Funded Ratio



## Changes in Assets During Fiscal Year 2008

### CASH POSITION

Net Assets on June 30, 2007 \$2,029,777,412

### ADDITIONS

Member Contributions	\$33,237,677
Employer Contributions	33,683,550
Other Additions	3,652,162
Investment Income	(140,641,059)
<b>Total Additions</b>	<b>(\$70,067,670)</b>

### DEDUCTIONS

Benefits Paid	\$106,456,334
Refunds	5,500,476
Administrative Expenses	1,639,521
<b>Total Deductions</b>	<b>\$113,596,331</b>

Net Decrease (183,664,001)

Net Assets on June 30, 2008 \$1,846,113,411

## Statement of Assets as of June 30, 2008

### ASSETS

Equities	\$1,038,055,015
Fixed Income	459,221,747
Real Estate	218,557,672
Alternative Investments	101,316,753
Invested Cash	4,421,123
Invested Securities Lending	21,349,349
Receivables	16,043,152
Other Assets	11,712,263
<b>Total Assets</b>	<b>\$1,870,677,074</b>

### LIABILITIES

Accounts Payable	\$2,693,157
Accrued Expenses	514,856
Securities Lending	21,349,349
Other Liabilities	6,301
<b>Total Liabilities</b>	<b>24,563,663</b>

Net Assets on June 30, 2008 \$1,846,113,411



## Interview with Investment Director

**Q.** Has this bear market in stocks and poor global economy affected North Dakota's pension fund investments?

**A.** While North Dakota's economy has done well in recent years, global conditions have deteriorated. As a highly diversified, global investor, the pension funds (TFFR and PERS) have experienced declines in market values similar to other public pension plans, endowments and foundations. Even most individual investors have been negatively impacted.

**Q.** Why do pension funds even invest in the stock market?

**A.** Over the long term, it has tended to benefit an investor to be an "owner" as opposed to a "lender." In other words, investors who own stocks are owners, while bond holders are lenders. It is always expected that stock market returns will be more volatile, but the risk of price fluctuation has historically been offset by higher returns.

**Q.** How are you able to pay monthly pension benefits when the investments are declining in value?

**A.** Proper asset allocation is the key. Our state pension funds maintain an appropriate level of cash in their portfolios. Pension payments can be made without ever having to force the sale of investments to raise cash.

**Q.** Has the State Investment Board (SIB) changed the way it manages investments because of the market turmoil?

**A.** Yes and no. The SIB is always working to identify prudent investment opportunities. The management of the funds is very stable and methodical. As market conditions change, the



*Steve Cochrane, CFA  
Executive Director,  
ND Retirement & Investment Office  
Chief Investment Officer,  
ND State Investment Board*

"opportunity set" changes. Therefore, it may be that 2009 will bring different types of investment options into consideration as asset valuations have changed so much in this past year.

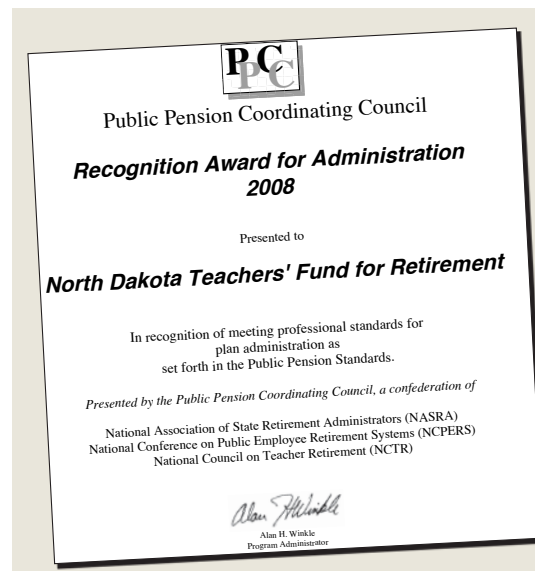
**Q.** What changes are planned for the future?

**A.** The North Dakota pension funds are overseen by boards that pay close attention to the assets

and liabilities of the funds. These boards work closely with their consultants to determine changes in strategy over time. It is important to note that the funds continue to follow long-term actuarially based and time tested practices.

**Q.** Why does this recession seem so bad?

**A.** It is normal for the economy to expand and contract on a cyclical basis. This is usually fairly manageable through the changing of interest rates by the Federal Reserve Board. This one is different, however. In addition to the normal economic cycle, the world is dealing with a severe financial crisis. Until we reach sustainable bottom in housing prices and the shedding of poor quality loans by banks and other financial institutions, we will be in a difficult environment. Only after these events will we see credit conditions begin to return to normal and the stock market will appreciate that. While it seems that we are in for a long period of tough times, we are beginning to see small signs of recovery in the credit markets.



### ACHIEVEMENT AWARD

The ND Teachers' Fund for Retirement has received the 2008 Public Pension Principles Recognition Award for Administration. This award is designed to recognize public employee retirement systems that meet professional standards for pension plan administration.

# 2009 Legislative Update

As of this writing, there are three bills affecting the ND Teachers' Fund for Retirement (TFFR) that are being considered by the 61st Legislative Assembly. For more detailed information, copies of the bills are available through the legislative link on the TFFR website at [www.nd.gov/rio](http://www.nd.gov/rio) or by contacting the administrative office.

- **HB 1022.** This bill includes the budget authority and continuing appropriations for ND Retirement and Investment Office (NDRIO) administrative expenses for operating the two programs assigned to the agency: retirement program for the TFFR Board and the investment program for the State Investment Board (SIB).

HB 1022 also includes \$5 million for a one-time retiree supplemental benefit payment as outlined in Governor Hoeven's budget recommendations. The formula for the supplemental payment is SB 2277.

- **HB 1080.** HB 1080 includes technical and administrative changes to the TFFR program. The proposed changes have no financial impact on the Fund. Most of the amendments are needed to incorporate federal tax law changes as they relate to qualified governmental plans. Other changes include clarification that non-contracted substitute teaching does not apply to the annual hour limit for re-employed retirees. In addition, confidentiality provisions are modified to allow disclosure of retirement information in certain limited situations outlined in the bill.
- **SB 2277.** Sponsored by Senator O'Connell, this bill provides a one-time supplemental retiree benefit payment to all TFFR retirees and beneficiaries who retired before January 1, 2009 and are receiving annuity benefits on December 1, 2009. The supplemental payment is equal to an amount determined by taking \$24 per year of service credit, plus \$18 per number of years since the member's retirement. The supplemental payment can not exceed the greater of 10% of the member's annual annuity or \$750. If approved, the supplemental payment would be made in December 2009. The supplemental payment would be funded by a General Fund transfer to TFFR.



**Example 1:** Retiree with 30 years of service credit who retired in 1994 (15 years retired). Current monthly annuity = \$1,500

$\$24 \times 30$  (service credit) = \$720

$\$18 \times 15$  (years retired) = \$270

Supplemental Payment Amount **\$990** paid December 2009

*The supplemental payment can not exceed the greater of \$750 or 10% of annual benefit (\$1,500 x 12 months x 10% = \$1,800). Since the supplemental payment does not exceed \$1,800, the payment will not be capped in this example.*

**Example 2:** Retiree with 15 years of service credit who retired in 1979 (30 years retired). Current monthly annuity = \$600

$\$24 \times 15$  (service credit) = \$360

$\$18 \times 30$  (years retired) = \$540

Supplemental Payment Amount \$900, but capped at \$750, so **\$750** paid December 2009

*The supplemental payment can not exceed the greater of \$750 or 10% of annual benefit (\$600 x 12 months x 10% = \$720). Since the supplemental payment exceeds \$750, the payment will be capped in this example.*

# Valuation Report

*Continued from page 2*

year. The average annual benefit paid to annuitants was \$17,728.

While active membership has decreased an average of 0.3% per year over the past 10 years, the number of retired members has grown an average of 3.3% per year. Currently, there are 1.5 active members for each retiree (down from 2.2 actives per retiree 10 years ago), and the ratio of active to retired members continues to decrease.

## ***Asset levels***

Actuarial calculations are based on the actuarial value of assets, not market value. Actuarial value reflects an asset smoothing approach which averages investment gains and losses over 5 years. Actuarial value of assets increased from \$1.75 billion to 1.9 billion (while market value decreased from \$2.0 billion to \$1.85 billion) on June 30, 2008. Last year's net investment return was -7.51%, which was well below the 8.0% investment return assumption.

## ***Actuarial Results***

According to the 2008 actuarial report, TFFR's unfunded actuarial accrued liability (UAAL)

decreased from \$459 million to \$421 million. The GASB Annual Required Contribution (ARC) rate decreased from 10.15% to 9.24%. This is greater than the 8.25% employer contribution rate required by law. The shortfall between the rate mandated by law and the rate necessary to fund the UAAL in 30 years improved from -2.40% to -0.99%. The funding period is 57 years.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from 79.2% to 81.9%. However, the funded ratio using market value decreased from 91.9% to 79.2%.

## ***Future Projections***

Assuming negative returns for FY 2009, followed by 8% returns in the future, TFFR's funded level shows a significant decline. It is predicted that funding improvements (in the form of additional contributions) will become necessary to make up for investment losses.

Details of the July 1, 2008 actuarial valuation report are included in the NDRIO 2008 Comprehensive Annual Financial Report (CAFR) which is available on the NDRIO website or by request from the administrative office.

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